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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Amendment of the Part 69	)	
Allocation of General Support	)	CC Docket No. 92-222
Facility Costs	)	

COMMENTS OF THE
UNITED STATES TELEPHONE ASSOCIATION

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December 4, 1992

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SUMMARY

USTA supports the Commission's proposal to revise Section 69.307 of the Commission's rules by eliminating the "Category 1.3 exclusion" from the apportionment of General Support Facilities (GSF) investment among the Part 69 categories. This rule revision will facilitate more rational pricing for both special and switched access services without compromising any important public interest goals.

If the Commission is to realize its objectives in this proceeding, however, the reallocated GSF costs must be treated in a manner similar to the treatment of exogenous changes under Section 61.45(d) of the Commission's price cap rules. This will afford price cap LECs the flexibility to make inter-basket rate realignments in order to reflect the reallocated GSF investment.

Finally, as the Commission modifies the GSF allocation and possibly makes other costing revisions, the Commission should evaluate whether access rate structure changes are needed to accomodate these revisions as an interim measure before comprehensive access reform can be achieved.

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In the Matter of

Amendment of the Part 69 Allocation of General Support Facility Costs	)))	CC Docket No. 92-222

COMMENTS OF
THE UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA)[1] hereby comments on the issues raised in the Commission's Notice of Proposed Accommodate (NPRM), FCC 92-440, released October 19, 1992, in the above-captioned proceeding.

I. INTRODUCTION

The instant NPRM was incorporated into a Report and Order in CC Docket No. 91-141, a proceeding in which the Commission prescribed rules and policies governing the expanded interconnection of local exchange carrier (LEC) facilities for the provision of interstate special access services by competitive access providers, interexchange carriers and end users.[2] In that proceeding, the Commission concluded "that all market participants should

[1] USTA is the principal trade association of the exchange carrier industry. Its membership of approximately 1,100 local telephone companies represents over 98% of telephone company-provided local access lines.

[2] Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, FCC 92-440, released October 19, 1992 (R&O) (Although they are contained in a single document, these comments will make separate reference to the R&O and the NPRM as may be appropriate.)

contribute to regulator-mandated support flows reflected in the LECs' rates for services subject to competition."[3] The Commission found that "[b]ased on the present record, the only significant non-cost based support flow imposed by [its] regulations affecting special access is the over-allocation of General Support Facilities (GSF) costs to special access."[4]

In the NPRM, the Commission proposes to revise its Part 69 rules in order to eliminate the over-allocation of GSF costs to special access, thus obviating the need for a contribution charge for this particular item.[5] The Commission states, however, that it will "permit LECs to seek approval of a contribution charge based on other support flows" that may be identified in the future.[6]

As discussed below, USTA supports the Commission's proposal to revise the Part 69 rules. As competition in the provision of exchange access services continues to expand, it is important that non-economic cost allocations be eliminated except where necessary to achieve important

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[3] R&O, ¶ 143.

[4] R&O, ¶ 147.

[5] NPRM, ¶ 267; see R&O, ¶ 148. While supporting the concept of contribution charges in principle, the Commission believes that by eliminating the GSF over-allocation, it will avoid certain "general concerns [it has] about the competitive impact of contribution charges." Id.

[6] R&O, ¶ 143; see id. at ¶ 147.

public policy objectives.[7] By modifying the allocation of GSF costs, the Commission will help facilitate more rational pricing for both special and switched access services without compromising any significant public interest goals.

If the Commission is to realize its objectives in this proceeding, the reallocation of GSF costs must be treated in a manner similar to the treatment of exogenous changes under Section 61.45(d) of the Commission's price cap rules.[8] This will afford price cap LECs the flexibility to make any required adjustments to their rates within the limits imposed by the price cap indices and bands. Finally, as the Commission modifies the GSF allocation and possibly makes other costing revisions, the Commission should evaluate whether access rate structure changes are needed to accommodate these revisions.[9]

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[7] USTA agrees with the Commission that all market participants, not just the LECs, should contribute toward achieving such objectives. See R&O, ¶¶ 143, 149. In this regard, USTA and its members will work with the FCC in order to calculate appropriate contribution charges for both special access expanded interconnection and any switched access expanded interconnection that the Commission may authorize in CC Docket 91-141. See Expanded Interconnection with Local Telephone Company Facilities, Second Notice of Proposed Accommodate, CC Docket 91-141, FCC 92-441, released October 16, 1992 (Second Notice).

[8] 47 C.F.R. § 61.45(d).

[9] USTA continues to believe that a comprehensive access restructure is necessary to effectuate the Commission's objectives in encouraging full and fair competition in the local exchange. See USTA's Reply Comments in CC Docket No. 91-141, filed September 20, 1991, pp. 34-35, 39. USTA views (continued...)

II. DISCUSSION

A. The Commission Should Adopt the Proposed Reallocation of GSF Costs.

Currently, Section 69.307 of the Commission's rules[10] apportions GSF investment among the Part 69 categories based on investment in central office equipment, information origination/termination equipment, and cable and wire facilities "excluding Category 1.3" plant.[11] Category 1.3 investment is actually a subcategory of exchange line cable and wire facilities and is defined to include "[s]ubscriber or common lines that are jointly used for local exchange service and exchange access for state and interstate interexchange services."[12] The effect of the exclusion of Category 1 plant from the Section 69.307 allocation is to under-allocate GSF investment to the common line category and over-allocate to other access categories, including special access and transport.[13] The Commission proposes to

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[9](...continued)
any rate structure change necessary to accommodate cost reallocations as an interim measure until comprehensive access reform can be achieved.

[10] 47 C.F.R. § 69.307.

[11] 47 C.F.R. § 69.401 apportions plant specific operations expenses in Account 6120 on the basis of the apportionment of the GSF investment in Section 69.307. As the Commission notes, the Section 69.307 allocation has collateral effects on the allocation of other investment and expenses. See NPRM, ¶ 267, n. 625.

[12] 47 C.F.R. § 36.154(a).

[13] NPRM, ¶ 267.

restore a more balanced allocation by eliminating the Category 1.3 exclusion from Section 69.307.[14]

The Category 1.3 exclusion from the GSF allocation was adopted in the Part 69 conformance proceeding.[15] Most parties commenting in that proceeding urged the Commission to avoid significant shifts in revenue requirement among the access categories when conforming the Part 69 rules to the then new Part 36 jurisdictional separations procedures.[16] At the time, the Commission was concerned that inclusion of Category 1.3 investment in the GSF allocation would overassign costs to the common line revenue requirement, threatening the Commission's revenue neutrality goal.[17] Now, the Commission tentatively concludes that any benefits of achieving revenue neutrality are outweighed by the benefits of removing a substantial over-allocation of GSF costs from the non-common line access categories, including special access and switched transport.[18]

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[14] Id. at ¶ 269.

[15] Amendment of Part 69 of the Commission's Rules and Regulations, Access Charges, to Conform It with Part 36, Jurisdictional Separations Procedures, Report and Order, CC Docket No. 87-113, 2 FCC Rcd 6447 (1987) (Conformance Order).

[16] See id. at 6448.

[17] See id. at 6452.

[18] See NPRM, ¶ 268.

USTA supports the Commission's proposal to include Category 1.3 investment in the GSF allocation. A recently completed USTA analysis shows that such a rule change would result in a substantial reduction in annual interstate revenue requirements for special access, switched transport and local switching.[19] The total interstate annual revenue requirement related to GSF costs will remain unchanged. However, by eliminating a regulator-mandated over-allocation to the above access categories, the Tier 1 LECs subject to the Commission's collocation requirements should be able to price their services in a manner that reflects a more reasonable allocation of common costs.[20]

Because regulatory support mechanisms, including certain non-economic cost allocations, are often necessary to achieve important public policy objectives, contribution charges will be required to sustain these mechanisms, particularly if the Commission permits expanded

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[19] See Attachment 1 to these comments. The analysis of large, midsize and small LEC data, representing 92% of industry access lines, indicates that the proposed rule change would result in an overall revenue requirement reduction of 10.2% for special access, 10.6% for switched transport, and 10.1% for local switching. The overall common line revenue requirement would increase by 12.9%.

[20] See Section II.B below as to how this pricing can be effectuated, particularly for price cap LECs whose rates are largely independent of access category cost allocations.

interconnection for switched access services as it now proposes in CC Docket No. 91-141.[21] The reallocation of GSF costs, however, can be accomplished without jeopardizing universal service or other important Commission objectives.[22]

The Commission asks parties to propose a methodology for calculating a contribution charge to recover over-allocated GSF costs in the event that the Commission does not ultimately adopt its reallocation proposal.[23] If the Commission decides not to reallocate GSF costs, USTA believes the over-allocation to special access should be recovered through a public policy rate element paid by all users. Such a rate element would recover revenues no greater than the difference between a LEC's GSF allocation to special access as currently calculated, and the carrier's allocation to special access computed without the Category 1.3 exclusion. (If the Commission eventually prescribes switched access expanded interconnection, the over-

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[21] See Second Notice, supra.

[22] It is worth noting that, besides benefiting the larger carriers subject to collocation, data presented in the Part 69 conformance proceeding by USTA and other small LEC representatives suggested that including Category 1.3 investment in the GSF cost allocation would help narrow the disparity between small LEC traffic sensitive rates and those of the larger carriers. See Conformance Order, 2 FCC Rcd at 6451-6452. Of course, further regulatory action will be necessary to eliminate this disparity.

[23] NPRM, ¶ 269; see R&O, ¶ 148, n. 337.

allocation of GSF costs to switched transport would also be computed and included in the public policy rate element.) USTA stresses, however, that it makes little sense to apply a contribution charge to recover GSF costs associated with only special access when a reallocation is easily implemented and would not undermine important public interest objectives.[24]

B. The Proposed Reallocation of GSF Costs Must Be Treated in a Manner Similar to an Exogenous Cost Change Under the Price Cap Rules.

The proposed reallocation of GSF expense will be of little benefit if carriers do not have the opportunity to adjust their rates to reflect the reallocation. For rate-of-return carriers, the rate adjustment process will be largely automatic insofar as the reallocated costs will be reflected in new revenue requirements for the Part 69 access categories. For price cap carriers, however, the issue is more complex since the rates charged by these LECs are not directly dependent on Part 69 cost allocations and assignments after the filing of initial price cap tariffs.

A price cap carrier's rates are tied to Part 69 cost allocations only to the extent that the PCIs, APIs and SBIs applicable to the LEC were initialized based on access costs and rates in effect prior to the carrier's initial price cap

[24] Contribution charges should be addressed in a more comprehensive proceeding along with the treatment of GSF costs in switched transport. See n. 7 above.

filing.[25] Thus, the GSF cost allocation (excluding Category 1.3 investment) prescribed in the Part 69 conformance proceeding was reflected in the initial price cap rates of all price cap carriers. Subsequent rate changes, however, are made pursuant to the Part 61 price cap rules, not the Part 69 rules, and are subject to the limitations on carrier pricing flexibility imposed by the price cap basket indices and service bands.[26]

Currently, "[u]nder price caps, LECs do not have the flexibility to alter their rates in a way that would reflect reallocation of costs between baskets."[27] The GSF cost reallocation proposed by the Commission, however, is analogous to an exogenous cost change under the price cap rules.[28] "Exogenous costs are in general those costs that are triggered by administrative, legislative or judicial action beyond the control of the carriers."[29] The proposed GSF reallocation will be triggered by regulatory action

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[25] See 47.C.F.R. § 61.48(d); see Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, CC Docket NO. 87-313, 5 FCC Rcd 6786, 6814 (1990) (Price Cap Order).

[26] See 47 C.F.R. §§ 61.42, 61.43, 61.45-61.47.

[27] Transport Rate Structure and Pricing, Report and Order and Further Notice of Proposed Accommodate, CC Docket 91-213, FCC 92-442, released October 16, 1992, ¶ 81; see 47 C.F.R. § 61.45(d)(1).

[28] See 47 C.F.R. § 61.45(d).

[29] Price Cap Order, 5 FCC Rcd at 6807.

beyond the control of the LECs. "These are costs that should result in an adjustment to the cap in order to ensure that the price cap formula does not lead to unreasonably high or unreasonably low rates."[30] Thus, while Part 69 cost allocation changes are not expressly included as an example of exogenous changes in Section 61.45(d)(1),[31] LECs should be afforded the ability to reflect the GSF reallocation in their rates by making inter-basket rate realignments through appropriate adjustments to their PCIs, APIs and SBIs under the price cap rules.[32]

C. **The Commission Must Consider Changing Its Access Charge Rate Structure.**

From a pricing standpoint, the most expeditious way of implementing the proposed GSF cost reallocation is to flow the resulting revenue requirement changes to the Part 69 access charge calculations for rate-of-return carriers, and

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[30] Id.

[31] See 47 C.F.R. § 61.45(d)(1). USTA notes that a Commission prescribed change in a Part 69 cost allocation has the same effect on underlying service costs as does such enumerated exogenous changes as revisions to the jurisdictional separations manual, changes to the Uniform System of Accounts, and reallocations of investment from regulated to non-regulated.

[32] USTA urges the Commission to adopt its proposed GSF cost reallocation by February 1, 1993, so as to provide both rate-of-return and price cap LECs the ability to reflect the reallocation in their next annual filing. The Commission should also indicate its willingness to entertain requests by Tier 2 LECs for short extensions of the effective date of the rule change in order to facilitate coordination with state PUC filings.

to allow price cap LECs to make rate level changes within the limits of the existing price cap rules. Such action will enable LECs to reflect the reallocation within their rates coincident with implementation of expanded interconnection.[33]

As costs are moved among access categories, however, the existing rate structure may not be suited to support cost increases in certain instances. For example, the proposed revision to the GSF allocation will cause the common line revenue requirement to increase. The cost pressure on common line could be exacerbated as other regulatory mechanisms requiring change are identified, and/or as costs to be included in the interconnection charge under the new transport rate structure are moved to other cost categories including common line.[34] Presently, common line cost increases can be recovered only through carrier common line charges, if a carrier's subscriber line charges (SLCs) are at the maximum. While USTA does not take a position herein as to what are appropriate access charge rate structure changes, the Commission must consider what changes are needed to accommodate increased allocations to common line, and/or other revenue requirement shifts.

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[33] See R&O, ¶ 259.

[34] See Transport Rate Structure and Pricing, Report and Order and Further Notice of Proposed Accommodate, CC Docket No. 91-213, FCC 92-442, released October 16, 1992, ¶ 81.

III. CONCLUSION

For all of the foregoing reasons, the Commission should adopt the proposed modification to Section 69.307 of its rules so as to eliminate the over-allocation of GSF costs to the special and switched transport access categories. The Commission should also allow price cap LECs to treat this modification in a manner similar to an exogenous change under Section 61.45(d) of the rules. Finally, the Commission must consider changes to its access charge rate structure in order to accommodate any cost reallocations that might be necessary for the implementation of expanded interconnection.

Respectfully submitted,

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December 4, 1992

Attachment 1

ANALYSIS OF COMMISSION'S PROPOSED RULE CHANGE

The inclusion of C&WF Cat. 1.3 in the allocation of GSF will shift costs among the access elements as shown below. This analysis, which represents about 92% of industry access lines, is based on filed 1991 ARMIS data for Tier 1 companies, volunteered data for Tier 2A companies, and aggregated Tier 2B data obtained from NECA.

CHANGE IN REVENUE REQUIREMENT DUE TO INCLUDING C&WF Cat. 1.3 IN ALLOCATION OF GSF AMONG ACCESS ELEMENTS
(646 Study Areas, 127.9 Million Access Lines)

	$(Millions)	Percent
Total Interstate	0	---
Common Line[1]	1,114	12.9%
Local Switching[2]	(342)	-10.1%
Switched Transport	(492)	-10.6%
Special Access	(275)	-10.2%
Non-Access[3]	(5)	-0.7%

[1] Includes pay.

[2] Includes local switching, equal access and information.

[3] Includes billing & collection and interexchange.